



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES
OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., April 22, 2003. The following members were present:

Jody B. Olson
Susan K. Simmons
J. Kirk Sullivan
Dennis L. Johnson
Pamela I. Ahrens

Trustee Dennis L. Johnson joined the meeting at 8:35 a.m. The electronic projection of materials and documents discussed in the meeting was handled by Carol Peterson. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bill Palumbo
Drew Black
Brian McGrath
Dennis Fitzpatrick
Chris Growney
Mike Boren
Glenn Carlson
Juan Benito
Vicki Aponik
Paul Saylor
Norm Jones

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
Clearwater Advisors
Clearwater Advisors
Brandes
Brandes
CSCM
CSCM
GRS

Geoffrey Lea	GMAC
Brent Nye	Boise School District
Charlie Brown	REAI
Matt Freeman	LBO
Matt Haertzen	Endowment Fund Investment Board
Doug Dorn	R.V. Kuhns
Cecile McMonigle	PERSI
Rhonda Yadon	PERSI
Richelle Sugiyama	PERSI
John R. Doner	PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Ahrens, the Board unanimously approved the minutes of the March 18, 2003, regular meeting of the Retirement Board as submitted.

Monthly Portfolio Update Mr. Maynard discussed his investment report dated April 20, 2003, which he had updated from the one previously furnished to the Board. In the report and in his discussion, Mr. Maynard noted the following:

Since the last Board meeting, the Iraq war has played out about as favorably as could be expected, and the fund is up approximately 4%. Most, if not all, of the war jitters and uncertainty is out of the market, and markets are about where they were at the start of the year. The fund is slightly positive for the calendar year. The economy and corporate profit picture, however, is still very soft, and will be driving the markets over the remainder of the year.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing as expected vs. their respective benchmarks.

The TIPs account and Idaho Mortgages, with their government bond character, have the best absolute performance, while international and small cap equities have the worst. Zesiger and Genesis have the best relative performance for the fiscal year to date, while Brandes and Scudder have the worst.

The portfolio as a whole continues to exhibit its primarily defensive character that it developed late last year. This means that if the market turns around quickly, our relative performance will lag for a while.

Mr. Maynard's report stated the current value of the fund as of April 20, 2003 was \$6,045,157,050. The fiscal year-to-date return percentage is negative 4.4% and the month-to-date return was a positive 3.6%.

While the TIPs portfolio continues to do well, Mr. Maynard reiterated that their purpose for their inclusion in the portfolio is for asset allocation reasons as they allow us to carry more equities at a lower amount of risk.

Mario Giannini will attend the May meeting with a report on our private equity investments.

Our overall asset allocation is on target so no rebalancing is anticipated. Trustee Sullivan asked about a recent P&I article on rebalancing. Mr. Maynard discussed the premise of the article in detail and concluded that at this point in time they do not apply to PERSI, so he will not recommend making underlying rebalancing policy changes now.

Real Estate Update – Paul Saylor and Vicki Aponik from CSCM provided an overview of the current real estate equity market. They are analyzing potential investments to bring to the subcommittee, perhaps as early as next month. Reviewing the current procedure, Mr. Maynard said CSCM brings the proposed investment to the committee at a publicly noticed meeting. The subcommittee composed of CIO Maynard, Consultant Doug Dorn and Trustee Simmons makes those investment decisions. Mr. Maynard wants to get private real estate investments into the pipeline and have the processes and legal reviews in place so the committee and Board are familiar with the process if it becomes an area we want to extend.

Most of the \$200 million we have in the real estate market is now invested in REIT portfolios. Mr. Saylor gave examples of the types of real estate PERSI is considering as investments and the new ways of investing in this market. Real estate must perform over other equities if we are to invest there. We will not be guided by any specific target allocation, but continue to look for great opportunities up to 5% of our total assets. There was discussion of the real estate write downs in former years and ways to avoid that in the future.

DC Plan Manager Selection: Investment Officer Richelle Sugiyama and DC Manager Gay Lynn Bath had provided a memorandum dated April 14, 2003 to the Board. The memorandum outlined the search and review process followed in finding a 401(k) plan manager to replace ING. Trustee

Johnson said he had read the report and complimented the staff on the excellent job of due diligence.

By motion duly made by Trustee Johnson, seconded by Trustee Ahrens and unanimously approved, the Board adopted the staff recommendation to terminate the ING Small Company Fund per Mercer's recommendation and to select the T.Rowe Price Small Cap Stock Fund (OTCFX) as the Small Cap Active Management investment option for the PERSI 401(k) Choice plan. Trustee Johnson noted that staff had saved our members \$10,000 by conducting this review in-house. Director Winkle said the target date for the transition of funds is July 31, 2003, with T. Rowe Price taking control of the funds on August 1, 2003.

Brandes: Mr. Maynard introduced global investment managers Glenn Carlson and Juan Benito of Brandes. Mr. Carlson discussed their recent disappointing performance and told the Board he believes there are outstanding opportunities currently in the market. He said there are substantial under pricings in the market of diversified telecommunications and pharmaceutical stocks providing great investment opportunities for his company.

Trustee Ahrens asked about the impact of the conflict in the Middle East and how changes in world order can affect the global investments. Mr. Carlson said terrorism definitely has an impact, but because the human organization wants an improved standard of living, in the long run we tend to figure out how to solve crises. Mr. Maynard added that the only real economic contribution from the Middle East is oil. The real concern of the market has been whether the war or some reaction would manage to damage the oil fields or start a wider problem. In the long term, unless there is a major terrorist event, there is not too much economic impact from Middle East events.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Most seemed optimistic regarding a market recovery, expecting interest rates to rise slowly. The threat of future terrorist acts continues to be worrisome. Managers seemed to be continuing their defensive positioning, while carefully scanning the horizon for opportunities in their own areas. Bill Palumbo noted that the stock market is in a severely negative mood and it will take some economic recovery to change that. The economy could be recovering, but it could take two or three months for it to show up in the macro statistics.

FISCAL:

Update and Expense Reports: Financial Officer James Monroe told the Board that the RFP for the annual audit services is closed and we have two bidders. In response to a question from the Chair, he said the bidders are Deloitte & Touche and Balukoff, Lindstrom & Company. The evaluation process will begin this week.

Mr. Monroe also reviewed the Out-of-State Travel and Administrative and Portfolio expense reports for March. Staff is working on a plan to proceed with the audit (or data cleanup) project which has funds encumbered in the budget. The phone equipment is being upgraded. He said there will be encumbrances at the fiscal year end for projects in progress but not billed; overall, he expects to finish the year with significant budget savings. Explaining a higher than budgeted cost in governmental services (such as the state controller's and state treasurer's offices) as an administrative error, Mr. Monroe said he used the wrong figure in budgeting costs for this year's fees from the state treasurer's office. He explained the over-budget figures in the portfolio report, saying private equity fees are billed ahead of the time period and Bloomberg services were changed during the year. Overall, he expects some savings in the portfolio budget for the year.

LEGAL

Securities Litigation – Deputy Attorney General Brad Goodsell said he had provided a memo about securities fraud and litigation to the Trustees. No action is needed; the information is provided for educational purposes; any questions or concerns on this issue may be directed to Mr. Goodsell.

Temporary and Proposed Rules: Mr. Goodsell had provided a memorandum and details of rules to implement SB1050 regarding administering a death benefit for public safety officers who are members of PERSI. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the rules as set forth in Docket No. 59-0103-0301 and directed them to be published as soon as possible after the legislature adjourns.

Review Final Decision & Order – Mr. Goodsell had provided a memorandum to the Board concerning the matter of the disability application of Roy Applewhite. In response to a question from Trustee Ahrens, Mr. Goodsell said Mr. Applewhite does not appear to have an attorney representing him. After discussion, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the Board authorized staff to ask the court to remand this matter back to the Board; that once remanded to the Board, the matter be remanded to the hearing officer for further proceedings to consider the effect of Claimant's separation benefit; and that the hearing officer issue a new recommended decision for the Board's consideration.

COMMUNICATIONS

Member Survey: PERSI Communications Officer Becky Reeb and John Hetherington of Clearwater Research reviewed slides previously provided to the Trustees regarding a survey of PERSI members and employers. The goal is to determine overall satisfaction with PERSI service as well as customer service satisfaction while going through a specific process such as a divorce or retirement. Questions about website use, ease of reaching PERSI employees, submitting transmittal information electronically, and speedy return of voice messages will be included to help identify areas in need of improvement. Some trustees said questions about satisfaction with plan design and benefits did not seem appropriate because these are set by the legislature and not by PERSI. We want to ask questions that can lead to process improvement. Trustee Ahrens is interested in the process members take when planning when to retire. Ms. Reeb will work with interested Trustees to ensure the questions produce information that will result in improved service to our members.

Answering a question from Chairman Olson, Ms. Reeb said this is the first year we included a survey in our budget. It will include the overall attitude of the employers and active members, then ongoing transactions surveys including recently retired members. We may do an attitude survey every two years in the future. Mr. Winkle added that as shown in the CEM survey results, member surveys are valuable for providing a qualitative benchmark. The results provide information so we know where improvements are desired and needed. He said the initial cost is \$60 thousand with an on-going cost of \$30 thousand per annum.

EXECUTIVE DIRECTOR

CEM Survey Results: Mr. Winkle introduced Jan Hartford of Cost Effective Measurement. Ms. Hartford surveys many of our peer groups and has a wealth of information regarding service levels, transaction costs and best practices from other retirement systems. The Board had previously received copies of the slides. Mr. Winkle said the cost to each participating system is \$25,000 which includes questionnaires, the production of the reports as well as a peer review conference.

The survey shows PERSI employees handle a high work load when compared to peer systems. Because member information such as copies of forms and correspondence is not available on-line to employees, the report showed member service levels in the 75% range, compared to peer systems. Surveying members and employers and improving PERSI's telephone system will provide needed data for improving service and raising these measurement scores.

Actuarial Audit Results: Norm Jones of GRS reviewed his Actuarial Peer Review report that had previously been provided to the Trustees. This review was a replication of our annual valuation and found that the actuarial assumptions used in the valuations are reasonable and appropriate; the Entry Age Normal Funding Method is appropriate; it is a reasonable approach to use market value of assets; Milliman USA is performing the actuarial function in a reasonable and acceptable manner; the valuations were prepared by fully qualified actuaries in accordance with applicable Actuarial Standards of Practice; contribution rates recommended are reasonable and consistent with the funding objective of PERSI and valuation results are reasonable and based on the appropriate benefits as described in the Idaho Statute. GRS used the same data we provided to Milliman, USA. The report also provided opinions on the appropriateness and reasonableness of assumptions. Robert Schmidt of Milliman, USA said the salary scale methodology and the smoothing of assets will be discussed when it is time to review assumptions for the next audit. This review increases the comfort level with the actuarial results as well as the underlying processes for the PERSI assumptions and funding.

Trustee Johnson complimented the actuaries on the high level of professionalism shown by this report. The specific items such as whether the inflation factor is too high will be reviewed when the Board sets the next assumptions. The ripple effect on the assumed investment return will also be studied. Trustees said the report is very important and highly valued.

Status Update: Mr. Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. He told the Board that Bonner County with 300 employees is expected to join PERSI. The transition to electronic transmittal reporting is going well with only 66 of the original 650 still needing conversion. Staff is working with payroll clerks in these agencies to assist in making the change to electronic reporting.

FUTURE BOARD MEETINGS

Tuesday, May 20, 2003, 8:30 a.m., Boise - PERSI office

No meeting in June

Tuesday, July 22, 2003, 9:30 a.m., Pocatello, Idaho

Tuesday, August 26, 2003, 8:30 a.m., Boise – PERSI office

Adjournment: There being no further business before the Board, by motion duly made by Trustee Sullivan, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 11:25 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director